



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Department of Labor and Industry

*For the Two Fiscal Years Ended
June 30, 2015*

JANUARY 2016

LEGISLATIVE AUDIT
DIVISION

15-15

FINANCIAL-COMPLIANCE AUDITS

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Financial-compliance audits are conducted by the Legislative Audit Division to determine whether an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) licenses.

The Single Audit Act Amendments of 1996 and OMB Circular A-133 require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by Government Auditing Standards. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2013, was issued March 28, 2014. The Single Audit Report for the two fiscal years ended June 30, 2015, will be issued by March 31, 2016. Copies of the Single Audit Report can be obtained by contacting:

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Cindy Jorgenson
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January 2016

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Department of Labor and Industry for the two fiscal years ended June 30, 2015. Included in this report are three recommendations directed at the Unemployment Insurance Program's compliance with federal regulations and state laws. This report also includes the Independent Auditor's Report, the department's financial schedules and notes, and the Report on Internal Control Over Financial Reporting and on Compliance and Other Matters. We issued unmodified opinions on each of the department's six financial schedules.

The department's written response to the audit recommendations is included in the audit report at page C-1. We thank the commissioner and her staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/Tori Hunthausen

Tori Hunthausen, CPA
Legislative Auditor

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APPOINTED AND ADMINISTRATIVE OFFICIALS

Department of Labor and Industry

Pam Bucy, Commissioner

Mike Cooney, Deputy Commissioner

Judy Bovington, Chief Legal Counsel

Scott Eychner, Administrator Workforce Services Division

Todd Younkin, Administrator, Business Standards Division

Kim Moog, Administrator, Centralized Services Division

Diana Ferriter, Administrator, Employment Relations Division

Brenda Nordlund, Administrator, Unemployment Insurance Division

George Parisot, Chief Information Officer, Administrator, Technology Services Division

Rende Mackay, Human Resource Director

Administratively Attached Functions

David Sandler, Judge, Workers' Compensation Court

Dan Ritter, Executive Director, Office of Community Services

Administratively Attached Boards and Commissions

Board of Unemployment Insurance Appeal Board

Board of Personnel Appeals

Commission for Human Rights

Professional and Occupational Licensing Boards

For additional information concerning the Department of Labor and Industry, contact:

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MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT

Department of Labor and Industry

For the Two Fiscal Years Ended June 30, 2015

JANUARY 2016

15-15

REPORT SUMMARY

The Department of Labor and Industry promotes and protects the well-being of Montana's workers and employers. Unemployment Insurance benefits is one means of promoting and protecting Montana workers and employers. In fiscal year 2014 and 2015, respectively, approximately \$134 million and \$111 million was spent for Unemployment Insurance benefits.

Context

The Department of Labor and Industry's (department) responsibilities include administration of the unemployment insurance program; enforcement of state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. In addition, the department establishes and enforces minimum building codes; conducts research and collects employment statistics; provides job training to individuals; provides administrative support to the 36 professional and occupational licensing boards and programs; and oversees federal and state training and apprenticeship programs.

The prior financial-compliance audit report included eight recommendations to the department. We found the department fully implemented four and partially implemented three of the recommendations. The other recommendation relates to Professional Licensing Boards (POL) fees. Because new legislation regarding POL fees became effective July 1, 2015, we have deferred audit work on this recommendation until the next audit. This will allow the department time to implement.

Results

This report includes three recommendations related to federal and state compliance requirements of the Unemployment Insurance Program. These issues relate to tax rate setting process, federal reporting, and cash management.

Recommendation Concurrence	
Concur	3
Partially Concur	0
Do Not Concur	0
Source: Agency audit response included in final report.	

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Call toll-free 1-800-222-4446, or e-mail ladhotline@mt.gov.

Chapter I – Introduction

Introduction

We performed a financial-compliance audit of the Department of Labor and Industry (department) for the two fiscal years ended June 30, 2015. The objectives of the audit were to:

1. Determine department compliance with selected applicable state and federal laws and regulations.
2. Determine if the financial schedules present fairly the department's results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2015, and June 30, 2014.
3. Determine the implementation status of prior audit recommendations.
4. Obtain an understanding of the department's control systems to the extent necessary to support our audit of the department's financial schedules and, if appropriate, make recommendations for improvements in management and internal controls of the department.

This report contains three recommendations regarding the Unemployment Insurance (UI) Program's compliance with state and federal requirements. This audit focused on significant financial activity of the department including UI contributions and premiums, UI benefit payments, personal services, and federal revenue. We also audited the UI Program's controls and compliance with federal regulations.

Internal Service Funds

In accordance with §17-8-101(6), MCA, we reviewed each of the department's three internal service funds to determine the reasonableness of fees and charges and fund equity balances for fiscal years 2014 and 2015.

To determine whether fees and charges are reasonable and based on cost, we reviewed the relationship between fee revenues collected and expenses incurred in providing the services. To determine the reasonableness of fund equity in each fund, we reviewed working capital in the funds at the end of the fiscal year, as well as fund equity trends. Working capital is defined in state policy as the amount of cash that would remain if all of the current assets were converted, and all current liabilities were paid, at their book value. We used a 60-day working capital reserve as a measure of the reasonableness of fund equity based on state policy and federal guidelines. Table 1 (see page 2) summarizes our determination of fees and charges and reasonableness of fund equity balances.

Table 1
Internal Service Funds Fees and Fund Equity

Fund Name and Description	Fees and Charges Reasonable		Fund Equity Reasonable	
	FY14	FY15	FY14	FY15
<u>Commissioner's Office/Centralized Services Division</u> – Accumulates costs incurred by the Commissioner's Office and Centralized Services Division that are of benefit to all divisions, and allocates those costs amongst the divisions.	Yes	Yes	Yes	Yes
<u>Administrative Services</u> – Accumulates legal costs incurred for activity at the Business Standards Division, and allocates those costs amongst the programs at the division.	Yes	Yes	No	No
<u>Office of Information Technology</u> – Accumulates costs incurred for providing information technology and related support services to all divisions, and allocates those costs amongst the divisions.	Yes	Yes	Yes	No

Source: Compiled by the Legislative Audit Division.

Administrative Services – As indicated on the table above, we determined fund equity was not reasonable for this fund at both June 30, 2014, and June 30, 2015. Our conclusion is because current liabilities exceeded current assets, resulting in negative working capital. A negative working capital indicates the fund does not have current assets available to pay current liabilities. Department personnel attributed this mainly to the fact that direct legal hours charged were lower than anticipated and expenses were higher because of an increase in salaries. In response, the department requested and was successful in receiving approval from the 2015 Legislature for an 8 percent increase in hourly rates charged for services in fiscal years 2016 and 2017. Rate increases are anticipated to increase working capital and fund equity.

Office of Information Technology – As indicated on the table above, we determined fund equity was not reasonable for this fund at June 30, 2015. Our conclusion is based on an average five-days working capital for the fund. Department personnel indicated this function was reorganized and beginning July 1, 2015, an additional internal service fund was added to help capture the costs of providing and charging for certain technology services. The 2015 Legislature approved the reorganization and increases in rates allowed to be charged. The rate increases are anticipated to increase working capital and fund equity.

Summary

Because the department is actively managing its internal service funds in an effort to comply with the requirement in state law, we make no recommendation to the department.

Background

The department operates as part of a national employment, unemployment insurance, and job training system that assists individuals in preparing for and finding work. The department assists employers in finding workers and pays workers unemployment benefits if they are temporarily unemployed through no fault of their own.

The department enforces state and federal labor, state wage and hour, workers' compensation, discrimination, and state and federal health and safety laws. In addition, the department conducts research, collects statistics, and provides rulings in labor management disputes. The department also administers building codes enforcement, weights and measures, and professional and occupational licensing.

The department has a Commissioner's Office, six divisions, and three administratively attached units. A brief description of each follows.

Commissioner's Office – The Commissioner's Office provides administrative and support services to the department. It is responsible for the overall administration of the department, including direction and program focus. The office provides legal, personnel-related, and computer services for the department and administratively attached boards and commissions.

Centralized Services Division – Centralized Services provides central services including payroll, accounting, purchasing, budgeting, and general services. It provides administrative hearing and dispute resolution services.

Employment Relations Division – Employment Relations administers and enforces federal and state wage and hour, labor relations, workers' compensation, workplace safety, contractor registration, and human rights statutes. In addition, both the Board of Personnel Appeals and Human Rights Commission, which are administratively attached to the department, are part of this division.

Unemployment Insurance Division – Unemployment Insurance administers the state's unemployment insurance laws and related federal programs. The division operates through the Contributions, Program Support, and Claims Processing Bureaus.

The Unemployment Insurance Appeal Board, which is administratively attached to the department, is part of this division.

Workforce Services Division – Workforce Services administers and operates employment, training, and re-training programs, including the job service offices. It collects, analyzes, and disseminates employment statistics, provides services to veterans and dislocated workers, and offers trade adjustment assistance to individuals affected by the North American Free Trade Agreement.

Business Standards Division – Business Standards oversees professional and occupational licensing, weights and measures, and building codes administration. Thirty-six licensing boards and programs that are administratively attached to the department are part of this division.

Technology Services Division – Technology Services provides technical services, network services, help desk, project management, security, infrastructure, and application services including computer programming and database management.

Workers' Compensation Court – The court provides a legal forum for Montana's employees and the insurance industry to resolve disputes arising out of work-related injuries and occupational disease.

Office of Community Services – The office administers federal programs including AmeriCorps and Campus Corps and coordinates community service and volunteer efforts statewide.

The full-time equivalent employees (FTE) were allocated as follows.

<p>Table 2 Full-Time Equivalent Employees At June 30, 2015</p>			
Location	Permanent HB2 FTE	Permanent Proprietary FTE	Total FTE
Centralized Services Division/ Commissioner's Office	10.00	53.75	63.75
Employment Relations Division	120.60		120.60
Unemployment Insurance Division	149.50		149.50
Workforce Services Division	282.45		282.45
Business Standards Division	145.03		145.03
Technology Services Division	33.00	22.00	55.00
Workers' Compensation Court	7.00		7.00
Office of Community Services	4.00		4.00
Totals	751.58	75.75	827.33
<p>Source: Compiled by Legislative Audit Division from the Department of Labor and Industry records.</p>			

Prior Audit Recommendations

The department's prior audit report for the two fiscal years ended June 30, 2013, contained eight recommendations to the department. We determined the department fully implemented four, partially implemented three, and did not implement one of the recommendations. The recommendations fully implemented by the department relate to accounts receivable in the uninsured employers fund, restricting programmer access, establishing base pay rules for demotions, and implementing procedures to ensure compliance with various laws.

One of the three partially implemented recommendations involves elevator inspection fees and billing practices. The department successfully implemented rule changes to increase fees to eliminate the deficit in the fund over a period of time. In addition, the department is in the process of software changes necessary to manage the accounts receivable system. We determined the department has taken reasonable action to fully implement this recommendation but additional time is needed. As a result, we make no further recommendation at this time and we will follow-up on this recommendation in the department's next audit.

Another one of the partially implemented recommendations relates to requirements in state law and administrative rules for annual inspections of elevators and other related equipment, and completion of corrective action plans within 14 days.

We determined the department, in fiscal year 2015, was able to meet the annual inspection requirements. Mostly, this was due to their ability to retain on average four staff during the year. The department arrived at a two tier approach to address the process related to the timeliness of correcting deficiencies identified through inspections. Administrative rules now allow for the immediate lock-out of elevators found to have serious safety issues. This process reduces the time to correct deficiencies because the elevator is not allowed to operate until the device passes a re-inspection. Secondly, the department is working on a rule change from the current 14 days to either 30-45 days, depending on the scope of the deficiency. We determined the department has taken reasonable action to fully implement this recommendation, but additional time is needed. As a result, we make no further recommendation at this time and we will follow-up on this recommendation in the department's next audit.

The third partially implemented recommendation concerns improvements needed in cash management controls over the Unemployment Insurance Program. We determined the department did implement additional controls to address the specific issues we identified in the prior audit; however, we identified other issues in our current audit work regarding cash management. This subject is discussed beginning on page 11.

The recommendation not implemented by the department is related to noncompliance with state laws regarding fees for the Professional and Occupational Licensing (POL) boards and is discussed below.

Professional and Occupational Licensing (POL) – In the prior audit report, we recommended the department monitor and set rates to ensure fees are commensurate with costs and cash balances do not exceed twice the annual appropriations, as required by law. In addition, we recommended that licensees should be refunded, when necessary, to ensure fees are commensurate with costs.

In response to the prior audit recommendation, the department initiated and was successful in changes in state law regarding the POLS. The changes, effective July 1, 2015, require that, in setting fees, the boards must consider the revenues and expenses incurred in the prior five licensing renewal cycles. Department officials indicate this change will allow the boards to set fees in accordance with their renewal

cycle, while still protecting licensees from unfair or overinflated fees. As a result, we make no further recommendation at this time. The next audit of the department will test and report on the department's compliance with the statute as amended for fiscal years 2016 and 2017.

Chapter II – Findings and Recommendations

Unemployment Insurance Program

The Department of Labor and Industry (department) administers the Unemployment Insurance (UI) Program which is a federal and state funded insurance program. The department collects unemployment insurance premiums from employers in the state and provides state and federal UI benefits to eligible individuals. The structure of the Federal-State UI Program is based on federal statute; however, it is implemented through state law. Table 3 shows UI tax contributions and benefits for the audit period.

Table 3 <u>Unemployment Insurance Benefits and Contributions and Premiums</u>		
Unemployment Insurance	Fiscal Year 2014	Fiscal Year 2015
Benefits	\$157,284,436	\$109,948,302
Contributions and premiums	\$132,600,219	\$145,509,238

Source: Compiled by Legislative Audit Division from SABHRS information.

The following three report sections address findings regarding compliance with federal regulations and state laws concerning UI rate setting process, federal reporting controls, and federal cash management.

Experience Rating

The department did not comply with state law in calculating experience ratios used to place employers in Unemployment Insurance tax brackets.

State law prescribes how the department assigns employers UI tax rates based on their experience with the UI program. We found the department did not comply with state law in calculating the experience rates for approximately 37,000 employers.

Section 39-51-1213 (2)(a), MCA, states that “Each employer is given an ‘experience factor,’ which is contributions paid since October 1, 1981, minus benefits charged on each employer’s account since October 1, 1991, divided by the employer’s average annual taxable payroll rounded to the next lower dollar amount for the three federal fiscal years immediately preceding the computation date.” The department’s computer system used for this process does not round the average taxable payroll down to the next lower dollar amount. The system rounds the average taxable payroll to two decimal places instead. As a result, the calculation was not in compliance with state law for the rating process completed in fiscal years 2014 and 2015. Department

personnel indicated they were not aware of the requirement in state law to round down to the next lower dollar amount. We analyzed the potential impact on actual tax rates for employers and identified seven employers who were assigned different tax rates than if their average taxable payroll had been rounded down as required by the law. Department officials performed a similar analysis and also identified seven employers with different rates. The total rate difference was 0.2 percent, which amounts to \$600 difference in contribution for these accounts. Although the actual contribution effect is minimal, the error is systemic in nature. Department officials indicate they have already submitted a system change request so the issue will be corrected before the next rating process.

RECOMMENDATION #1

We recommend the Department of Labor and Industry comply with state law by rounding the employer's average annual taxable payroll down to the next lower dollar when calculating employer experience rating.

Validation for UI Reporting

The department has not been able to successfully validate data for a federally-required Unemployment Insurance report.

The Overpayment Detection and Recovery Activities, (ETA 227), is one of several quarterly reports the department is required to submit for UI. Federal regulations require the department to validate four sets of data used for the report. Through data validation, the department performs significant testing over the logic used in pulling the reporting elements from its information system. The department has not been able to successfully validate all required data since fiscal year 2010.

Between fiscal year 2010 and 2012, new reporting elements were added to the report and the federal system had issues causing the environment to be unstable. After February of 2012, the department began working on the programming changes necessary to validate all required data. The department made several unsuccessful attempts at validation. After each attempt, department personnel had to identify the problems and often programming changes were necessary.

As a result, the department is not in compliance with federal regulations. Data validation process is important to ensure systemic data errors do not exist in the data used in the report. Department personnel indicate they are working to correct the issue.

RECOMMENDATION #2

We recommend the Department of Labor and Industry validate the data necessary for the Unemployment Insurance quarterly report as required by federal regulations.

Cash Management

The department has not complied with federal regulations and the Treasury State Agreement for its Unemployment Insurance cash draws for administrative expenditures paid through the automated clearing house.

In fiscal years 2014 and 2015, the department received approximately \$10.7 million and \$10.5 million, respectively, in federal funds to administer the UI program. The department is required to request cash for the administrative costs related to the UI program in compliance with the Treasury State Agreement (TSA) between the United States Treasury and the State of Montana. The agreement is intended to minimize the time between payment of expenditures and receiving federal funds to ensure the draws are revenue neutral for both the state and federal governments. As discussed in the prior audit recommendation section of this report, the department adequately addressed the specific issues discussed in the prior audit report. However, we noted the following new issues involving cash management:

- ♦ For most of the audit period, the cash draw procedures used for administrative draws did not consider cash balances prior to requesting the amount of cash needed. Without considering cash balances when determining draws, the potential exists that the department is drawing more funds than necessary and as a result the department is not in compliance with provisions of the TSA and federal regulations.
- ♦ During the audit period the department drew administrative funds through automated clearing house (ACH) on a fixed weekly pattern instead of when the funds actually cleared. The TSA specifies that funds paid through ACH should be based on actual clearance.

As a result, the department is not in compliance with the TSA and federal regulations. The first issue regarding consideration of cash was communicated to the department early in the audit and the department adjusted its procedures to examine cash balances at the time of the draw. Department officials indicated they agree with the second item and will adjust their draw procedures for payments made through ACH to be based on actual clearance.

RECOMMENDATION #3

We recommend the Department of Labor and Industry comply with the Treasury State Agreement and federal regulations by considering cash balances when drawing Unemployment Insurance funds and draw funds on an actual clearance pattern for payments made through the automated clearing house.

Independent Auditor's Report and Department Financial Schedules

LEGISLATIVE AUDIT DIVISION

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry (department) for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the department's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness

of the department's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the department as of June 30, 2015, and June 30, 2014, or changes in financial position or cash flow for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Department of Labor and Industry for each of the fiscal years ended June 30, 2015, and 2014, in conformity with the basis of accounting described in Note 1.

Other reporting required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 25, 2015, on our consideration of the department's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal

control over financial reporting or on compliance. The report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 25, 2015

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2014							
PROPERTY HELD IN TRUST: July 1, 2014	\$ 21,019	\$ 30,097,445	\$ 275,433	\$ 227,544,032	\$ (1,044,968)	\$ 0	\$ 29,052,500
						\$ 38,525	
ADDITIONS							
Budgeted Revenues & Transfers-In	71,947	47,083,014	34,499,033	166,237,487	8,109,635		
Nonbudgeted Revenues & Transfers-In		1,032,599	111,403	2	116,373		2,190,000
Prior Year Revenues & Transfers-In Adjustments	(500)	38,490	56,835	(12,140)	(8,147)		
Direct Entries to Fund Equity	1,351,354	(155,143)	124,271		(4,771,441)		
Additions to Property Held in Trust						878,948	
Total Additions	1,422,801	47,998,960	34,791,542	166,225,349	3,446,420	878,948	2,190,000
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,445,329	46,010,056	34,675,697	111,926,807	8,245,223		
Nonbudgeted Expenditures & Transfers-Out		1,030,590		1,764,290	253,539		
Prior Year Expenditures & Transfers-Out Adjustments	997	(68)	159,530	123,322	14,864		
Reductions in Property Held in Trust						787,906	
Total Reductions	1,446,326	47,040,578	34,835,227	113,814,419	8,513,626	787,906	0
FUND EQUITY: June 30, 2015	\$ (2,506)	\$ 31,055,827	\$ 231,748	\$ 279,954,962	\$ (6,112,174)	\$ 0	\$ 31,242,500
PROPERTY HELD IN TRUST: June 30, 2015						\$ 129,567	

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Agency Fund	Private Purpose Trust Fund
FUND EQUITY: July 1, 2013	\$ 14,121	\$ 37,070,273	\$ 1,426,650	\$ 176,536,132	\$ (619,707)	\$ 0	\$ 27,512,500
PROPERTY HELD IN TRUST: July 1, 2013						\$ 22,577	
ADDITIONS							
Budgeted Revenues & Transfers-In	91,029	47,534,172	31,679,750	188,374,997	7,956,596		
Nonbudgeted Revenues & Transfers-In		962,674	190,859	1	12,481		1,540,000
Prior Year Revenues & Transfers-In Adjustments	(2,000)	9,358,065	11,809	(457,534)			
Direct Entries to Fund Equity	1,264,473	(12,241,589)	(5,156)		3,801		(150,000)
Additions to Property Held in Trust					745,693		
Total Additions	1,353,502	45,613,322	31,877,262	187,917,464	7,972,878	745,693	1,390,000
REDUCTIONS							
Budgeted Expenditures & Transfers-Out	1,347,211	51,450,886	33,070,219	134,945,334	7,945,636		
Nonbudgeted Expenditures & Transfers-Out		1,008,749		1,946,040	444,260		
Prior Year Expenditures & Transfers-Out Adjustments	(607)	126,515	(41,740)	18,190	8,243		(150,000)
Reductions in Property Held in Trust					729,745		
Total Reductions	1,346,604	52,586,150	33,028,479	136,909,564	8,398,139	729,745	(150,000)
FUND EQUITY: June 30, 2014	\$ 21,019	\$ 30,097,445	\$ 275,433	\$ 227,544,032	\$ (1,044,968)	\$ 0	\$ 29,052,500
PROPERTY HELD IN TRUST: June 30, 2014						\$ 38,525	

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DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

TOTAL REVENUES & TRANSFERS-IN BY CLASS	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Licenses and Permits		\$ 17,391,935					\$ 17,391,935
Taxes		17	4,675				4,692
Charges for Services		966,863	68,335		\$ 6,647,760		7,682,958
Investment Earnings		15,152		\$ 6,207,601			6,222,753
Fines and Forfeits	\$ 71,447	2,684,540	671,557	35,120			3,462,664
Monetary Settlements		417,626					417,626
Sale of Documents, Merchandise and Property		52,167		4,653	967		57,787
Rentals, Leases and Royalties		74,001					74,001
Contributions and Premiums		24,103,796		153,170,680	115,406	2,190,000	177,274,476
Grants, Contracts, and Donations		124,351	1,549,795		2,346		2,429,757
Transfers-in		1,945,896					3,495,691
Capital Asset Sale Proceeds		80,010					82,356
Inception of Lease/Installment Contract		297,349					297,349
Federal Indirect Cost Recoveries					1,451,382		1,451,382
Miscellaneous		400	314				714
Federal			32,372,595	6,807,295			39,179,890
Total Revenues & Transfers-In	71,447	48,154,103	34,667,271	166,225,349	8,217,861	2,190,000	259,526,031
Less: Nonbudgeted Revenues & Transfers-In		1,032,599	111,403	2	116,373	2,190,000	3,450,377
Prior Year Revenues & Transfers-In Adjustments	(500)	38,490	56,835	(12,140)	(8,147)		74,538
Actual Budgeted Revenues & Transfers-In	71,947	47,083,014	34,499,033	166,237,487	8,109,635	0	256,001,116
Estimated Revenues & Transfers-In	37,000	48,170,397	43,564,917	169,327,598	7,687,158		268,787,070
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 34,947	\$ (1,087,383)	\$ (9,065,884)	\$ (3,090,111)	\$ 422,477	\$ 0	\$ (12,785,954)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS							
Licenses and Permits		\$ 1,360,517					\$ 1,360,517
Taxes		(922)	(510)		(680)		(2,112)
Charges for Services		(954,994)	4,222		487,969		(462,803)
Investment Earnings		(49,541)		(299,609)			(349,150)
Fines and Forfeits	\$ 34,947	151,873	101,320	(66,480)			221,660
Monetary Settlements		(75,502)					(75,502)
Sale of Documents, Merchandise and Property		(7,438)		(13,847)			(21,285)
Rentals, Leases and Royalties		(6,500)					(6,500)
Contributions and Premiums		974,553		14,227,853			15,202,406
Grants, Contracts, and Donations		6,409					6,409
Transfers-in		(2,511,238)	(3,010,829)				(5,522,067)
Capital Asset Sale Proceeds		27,450			586		28,036
Federal Indirect Cost Recoveries					(65,398)		(65,398)
Miscellaneous							(26,736)
Federal			(24,686)				(24,686)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 34,947	\$ (1,087,383)	\$ (6,135,401)	\$ (16,938,028)	\$ 422,477	\$ 0	\$ (23,073,429)
			\$ (9,065,884)	\$ (3,090,111)			\$ (12,785,954)

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DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

TOTAL REVENUES & TRANSFERS-IN BY CLASS

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Internal Service Fund	Private Purpose Trust Fund	Total
Licenses and Permits							
Taxes	\$	16,788,716				\$	16,788,716
Charges for Services		198	\$ 4,864		\$		5,349
Investment Earnings		3,845,504	6,600		6,647,280		10,499,384
Fines and Forfeits	\$ 89,029	19,208	\$	4,985,589			5,004,797
Monetary Settlements		10,959,087	654,002	8,424			11,710,542
Sale of Documents, Merchandise and Property		342,537					342,537
Rentals, Leases and Royalties		52,454		437			52,891
Contributions and Premiums		75,532					75,532
Grants, Contracts, and Donations		23,182,812		164,759,693			187,942,505
Transfers-in		377,670					1,917,670
Capital Asset Sale Proceeds		1,887,970	1,047,390			\$ 1,540,000	2,935,360
Inception of Lease/Installment Contract		25,712					25,712
Federal Indirect Cost Recoveries		263,152			1,309,029		263,152
Miscellaneous		34,359			12,481		1,309,029
Federal			30,169,562	18,163,321			48,332,883
Total Revenues & Transfers-In	89,029	57,854,911	31,882,418	187,917,464	7,969,077	1,540,000	287,252,899
Less: Nonbudgeted Revenues & Transfers-In		962,674	190,859	1	12,481	1,540,000	2,706,015
Prior Year Revenues & Transfers-In Adjustments	(2,000)	9,358,065	11,809	(457,534)			8,910,340
Actual Budgeted Revenues & Transfers-In	91,029	47,534,172	31,679,750	188,374,997	7,956,596	0	275,636,544
Estimated Revenues & Transfers-In	37,000	45,603,290	38,660,336	191,906,797	7,009,035		283,216,458
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 54,029	\$ 1,930,882	\$ (6,980,586)	\$ (3,531,800)	\$ 947,561	\$ 0	\$ (7,579,914)

BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS

Licenses and Permits	\$	868,121				\$	868,121
Taxes		(922)	\$ (510)		\$ (683)		(2,115)
Charges for Services		305,890	(8,400)		752,719		1,050,209
Investment Earnings		(38,102)	\$	(80,927)			(119,029)
Fines and Forfeits	\$ 54,029	412,997	84,002	(7,726)			543,302
Monetary Settlements		(75,502)					(75,502)
Sale of Documents, Merchandise and Property		(7,271)		(18,063)			(25,334)
Rentals, Leases and Royalties		(6,500)					(6,500)
Contributions and Premiums		709,887		4,259,175			4,969,062
Grants, Contracts, and Donations		166,411					166,411
Transfers-in		(407,288)	(1,705,176)				(2,112,464)
Capital Asset Sale Proceeds		(1,848)					(1,848)
Federal Indirect Cost Recoveries		5,009			195,525		195,525
Miscellaneous			(5,350,502)	(7,684,259)			(13,034,761)
Federal			(6,980,586)	(3,531,800)			(10,512,386)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 54,029	\$ 1,930,882	\$ (6,980,586)	\$ (3,531,800)	\$ 947,561	\$ 0	\$ (7,579,914)

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DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2015

	Business Standards Division	Commissioner's Office/CSD	Employment Relations Division	Office Of Community Services	Technology Services Division	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT									
Personal Services									
Salaries	\$ 6,412,874	\$ 3,714,763	\$ 5,849,693	\$ 263,873	\$ 2,514,087	\$ 6,358,803	\$ 378,939	\$ 11,731,083	\$ 37,224,115
Other Compensation	124,523		7,003	100		7,050		2,795	141,471
Employee Benefits	2,469,079	902,129	2,133,477	105,591	755,214	2,652,633	132,921	4,725,878	13,876,922
Personal Services-Other		19,215			3,543				22,758
Total	9,006,476	4,636,107	7,990,173	369,564	3,272,844	9,018,486	511,860	16,459,756	51,265,266
Operating Expenses									
Other Services	1,005,945	478,122	210,085	21,108	3,264,400	2,227,046	13,255	369,061	7,589,022
Supplies & Materials	506,726	171,479	217,111	50,989	685,577	166,386	4,779	518,982	2,322,029
Communications	261,369	77,065	185,758	25,536	689,665	658,795	6,380	363,309	2,267,877
Travel	425,342	39,152	229,010	41,846	45,236	60,914	11,151	443,598	1,296,249
Rent	437,894	243,326	556,641	19,958	156,597	379,394	39,225	941,868	2,774,903
Utilities	3,646		1,142			26,507	3,386	119,730	154,411
Repair & Maintenance	89,295	71,339	43,478	1,306	25,862	108,985	2,826	503,988	847,079
Other Expenses	2,958,920	1,018,918	1,399,853	106,807	419,848	3,235,433	56,744	2,243,220	11,439,743
Total	5,689,137	2,099,401	2,843,078	267,550	5,287,185	6,863,460	137,746	5,503,756	28,691,313
Equipment & Intangible Assets									
Equipment	186,419		44,229					44,869	275,517
Intangible Assets					837,966				837,966
Total	186,419		44,229		837,966			44,869	1,113,483
Grants									
From State Sources	5,300							449,065	454,365
From Federal Sources				2,623,263				6,823,404	9,446,667
Total	5,300			2,623,263				7,272,469	9,901,032
Benefits & Claims									
To Individuals			2,336,643			111,137,505			113,474,148
From State Sources			76,200						76,200
Insurance Payments			(49,986)						(49,986)
Total			2,362,857			111,137,505			113,500,362
Transfers-out									
Fund transfers	47,991	706	41,570	216,356				150,000	456,623
Mandatory Transfers						192		44,684	44,876
Total	47,991	706	41,570	216,356		192		194,684	501,499
Debt Service									
Loans								11,578	11,578
Capital Leases	26,482	3,732	3,904	174	2,095	15,747	662	84,027	136,823
Total	26,482	3,732	3,904	174	2,095	15,747	662	95,605	148,401
Post Employment Benefits									
Other Post Employment Benefits		151,369			52,097				203,466
Employer Pension Expense		243,718			81,636				325,354
Total		395,087			133,733				528,820
Total Expenditures & Transfers-Out	\$ 14,961,805	\$ 7,135,033	\$ 13,285,811	\$ 3,476,907	\$ 9,533,823	\$ 127,035,390	\$ 650,268	\$ 29,571,139	\$ 205,650,176
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		\$ 203,534	\$ 1,048,409	\$ 131,029	\$ 29,855			\$ 33,499	\$ 1,446,326
State Special Revenue Fund	\$ 14,846,127	231,094	10,372,937	132,845	4,117,045	\$ 5,136,176	\$ 650,268	\$ 11,554,086	\$ 47,040,578
Federal Special Revenue Fund	115,678	458,494	1,005,078	3,213,033	3,115,208	8,947,432		17,980,304	34,835,227
Enterprise Fund			859,387			112,951,782		3,250	113,814,419
Internal Service Fund		6,241,911			2,271,715				8,513,626
Total Expenditures & Transfers-Out	14,961,805	7,135,033	13,285,811	3,476,907	9,533,823	127,035,390	650,268	29,571,139	205,650,176
Less: Nonbudgeted Expenditures & Transfers-Out	246,602	168,760	474,052	82,845	107,892	1,822,591		145,678	3,048,420
Prior Year Expenditures & Transfers-Out Adjustments	85,286	13,439	21,516	45,610	(5,678)	129,472	454	8,546	298,645
Actual Budgeted Expenditures & Transfers-Out	14,629,917	6,952,834	12,790,243	3,348,452	9,431,609	125,083,327	649,814	29,416,915	202,303,111
Budget Authority	15,134,283	9,248,917	13,746,957	3,872,981	10,290,575	168,759,320	675,624	42,034,052	263,762,709
Unspent Budget Authority	\$ 504,366	\$ 2,296,083	\$ 956,714	\$ 524,529	\$ 858,966	\$ 43,675,993	\$ 25,810	\$ 12,617,137	\$ 61,459,598
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		\$ 1	\$ 3	\$ 26	\$ 318			\$ 411	\$ 759
State Special Revenue Fund	\$ 305,088	596,222	826,422	27,232	338,081	\$ 2,574,591	\$ 25,810	\$ 237,325	\$ 4,930,771
Federal Special Revenue Fund	199,278	1,653,364	94,365	497,271	485,741	3,879,209		12,366,851	19,176,079
Enterprise Fund			35,924			37,222,193		12,550	37,270,667
Internal Service Fund		46,496			34,826				81,322
Unspent Budget Authority	\$ 504,366	\$ 2,296,083	\$ 956,714	\$ 524,529	\$ 858,966	\$ 43,675,993	\$ 25,810	\$ 12,617,137	\$ 61,459,598

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DEPARTMENT OF LABOR & INDUSTRY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2014

	Business Standards Division	Commissioner's Office/CSD	Employment Relations Division	Office Of Community Services	Technology Services Division	Unemployment Insurance Division	Workers Compensation Court	Workforce Services Division	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT									
Personal Services									
Salaries	\$ 6,156,214	\$ 3,586,486	\$ 5,615,039	\$ 259,294	\$ 2,714,760	\$ 6,589,717	\$ 373,315	\$ 11,335,312	\$ 36,630,137
Other Compensation	151,550		9,500	100		7,200		1,608	169,958
Employee Benefits	2,279,443	1,113,699	1,974,458	96,144	881,984	2,608,778	121,275	4,388,067	13,463,848
Personal Services-Other		(39,542)			147,184				107,642
Total	<u>8,587,207</u>	<u>4,660,643</u>	<u>7,598,997</u>	<u>355,538</u>	<u>3,743,928</u>	<u>9,205,695</u>	<u>494,590</u>	<u>15,724,987</u>	<u>50,371,585</u>
Operating Expenses									
Other Services	1,081,864	501,896	531,449	56,375	3,612,043	800,329	19,734	385,557	6,989,247
Supplies & Materials	677,918	143,271	320,643	45,045	907,026	164,678	8,728	417,359	2,684,668
Communications	329,916	81,268	221,280	22,879	753,347	769,379	5,475	344,398	2,527,942
Travel	542,184	62,879	269,561	35,534	27,623	81,559	5,423	399,479	1,424,242
Rent	407,253	265,118	538,378	19,112	82,808	348,931	39,300	880,827	2,581,727
Utilities	3,754		7,328			26,499	3,353	120,820	161,754
Repair & Maintenance	104,883	78,939	66,235	1,140	53,705	68,724	2,766	347,914	724,306
Other Expenses	2,986,625	948,596	1,378,632	93,780	410,376	3,377,844	53,242	2,172,144	11,421,239
Total	<u>6,134,397</u>	<u>2,081,967</u>	<u>3,333,506</u>	<u>273,865</u>	<u>5,846,928</u>	<u>5,637,943</u>	<u>138,021</u>	<u>5,068,498</u>	<u>28,515,125</u>
Equipment & Intangible Assets									
Equipment	740,130		10,940					12,908	763,978
Intangible Assets					750,000	6,458,175			7,208,175
Total	<u>740,130</u>		<u>10,940</u>		<u>750,000</u>	<u>6,458,175</u>		<u>12,908</u>	<u>7,972,153</u>
Grants									
From State Sources	5,000							415,505	420,505
From Federal Sources				2,420,936				5,544,062	7,964,998
Total	<u>5,000</u>			<u>2,420,936</u>				<u>5,959,567</u>	<u>8,385,503</u>
Benefits & Claims									
To Individuals			1,975,635			134,227,178			136,202,813
From State Sources			75,389						75,389
From Other Sources			(150,000)						(150,000)
Insurance Payments			(1,079)						(1,079)
Total			<u>1,899,945</u>			<u>134,227,178</u>			<u>136,127,123</u>
Transfers-out									
Fund transfers	74,868		37,843	110,621					223,332
Mandatory Transfers		56						187,966	188,022
Total	<u>74,868</u>	<u>56</u>	<u>37,843</u>	<u>110,621</u>				<u>187,966</u>	<u>411,354</u>
Debt Service									
Loans								11,578	11,578
Capital Leases	21,057	2,457			2,275	7,608		34,383	67,780
Total	<u>21,057</u>	<u>2,457</u>			<u>2,275</u>	<u>7,608</u>		<u>45,961</u>	<u>79,358</u>
Other Post Employment Benefits									
Other Post Employment Benefits		185,668			71,067				256,735
Total		<u>185,668</u>			<u>71,067</u>				<u>256,735</u>
Total Expenditures & Transfers-Out	\$ <u>15,562,659</u>	\$ <u>6,930,791</u>	\$ <u>12,881,231</u>	\$ <u>3,160,960</u>	\$ <u>10,414,198</u>	\$ <u>155,536,599</u>	\$ <u>632,611</u>	\$ <u>26,999,887</u>	\$ <u>232,118,936</u>
EXPENDITURES & TRANSFERS-OUT BY FUND									
General Fund		\$ 188,861	\$ 978,164	\$ 125,204	\$ 31,468			\$ 22,907	\$ 1,346,604
State Special Revenue Fund	\$ 15,372,142	353,028	10,359,783	106,187	4,585,501	9,952,214	632,611	11,224,684	52,586,150
Federal Special Revenue Fund	189,867	387,325	966,179	2,929,569	3,401,317	9,410,088		15,744,134	33,028,479
Enterprise Fund			727,105			136,174,297		8,162	136,909,564
Internal Service Fund	650	6,001,577			2,395,912				8,398,139
Private Purpose Trust Fund			(150,000)						(150,000)
Total Expenditures & Transfers-Out	<u>15,562,659</u>	<u>6,930,791</u>	<u>12,881,231</u>	<u>3,160,960</u>	<u>10,414,198</u>	<u>155,536,599</u>	<u>632,611</u>	<u>26,999,887</u>	<u>232,118,936</u>
Less: Nonbudgeted Expenditures & Transfers-Out	206,502	205,505	517,428	43,222	372,295	1,948,144		105,953	3,399,048
Prior Year Expenditures & Transfers-Out Adjustments	(11,832)	8,604	(139,420)			19,294	433	83,523	(39,398)
Actual Budgeted Expenditures & Transfers-Out	<u>15,367,989</u>	<u>6,716,682</u>	<u>12,503,223</u>	<u>3,117,738</u>	<u>10,041,903</u>	<u>153,569,161</u>	<u>632,178</u>	<u>26,810,411</u>	<u>228,759,285</u>
Budget Authority	18,314,531	8,702,668	12,624,809	3,880,469	10,136,711	180,772,972	634,780	38,134,474	273,201,414
Unspent Budget Authority	\$ <u>2,946,542</u>	\$ <u>1,985,986</u>	\$ <u>121,586</u>	\$ <u>762,731</u>	\$ <u>94,808</u>	\$ <u>27,203,811</u>	\$ <u>2,602</u>	\$ <u>11,324,063</u>	\$ <u>44,442,129</u>
UNSPENT BUDGET AUTHORITY BY FUND									
General Fund		\$ 330	\$ 2,952	\$ 170	\$ 5				\$ 3,457
State Special Revenue Fund	\$ 2,641,436	759,051	64,416	14,259	14,646	9,954,757	2,602	276,825	13,727,992
Federal Special Revenue Fund	305,106	1,075,731	37,248	748,302	63,065	3,221,522		11,039,600	16,490,574
Enterprise Fund			16,970			14,027,532		7,638	14,052,140
Internal Service Fund		150,874			17,092				167,966
Unspent Budget Authority	\$ <u>2,946,542</u>	\$ <u>1,985,986</u>	\$ <u>121,586</u>	\$ <u>762,731</u>	\$ <u>94,808</u>	\$ <u>27,203,811</u>	\$ <u>2,602</u>	\$ <u>11,324,063</u>	\$ <u>44,442,129</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

Department of Labor and Industry

Notes to the Financial Schedules

For the Two Fiscal Years Ended June 30, 2014

1. Summary of Significant Accounting Policies

Basis of Accounting

The Department of Labor & Industry (the department) uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, and Federal Special Revenue). In applying the modified accrual basis, the department records:

- ♦ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ♦ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the department to record the cost of employees' annual and sick leave when used or paid.

The department uses accrual basis accounting for its Proprietary (Enterprise and Internal Service) and Fiduciary (Private-Purpose Trust and Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the department records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the department receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The department uses the following funds:

Governmental Fund Category

- ♦ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.

- ♦ **State Special Revenue Fund** – to account for proceeds of specific revenue sources that are legally restricted to expenditures for specific state program purposes. Department State Special Revenue Funds include the various professional and occupational licensing boards, contracts from Public Health and Human Services, the Employment Security Account, Subsequent Injury Administration, Building Codes, Weights and Measures, Workers' Compensation Regulation, Uninsured Employers, and cashed Plan I and II Securities.
- ♦ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Department Federal Special Revenue Funds include the Workforce Investment Act, Employment Services, and Unemployment Insurance Administrative Funds.

Proprietary Fund Category

- ♦ **Internal Service Fund** – to account for the financing of goods or services provided by one department or agency to other departments or agencies of state government or to other governmental entities on a cost-reimbursement basis. Department Internal Service Funds include funds to accumulate and distribute costs. These include the Commissioner's Office and Centralized Services Division, the Office of Legal Services, and the Technology Services Division.
- ♦ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the department finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred, or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Department Enterprise Funds include the Subsequent Injury Fund and the Unemployment Insurance (UI) Fund. The June 30, 2015 UI fund equity was \$282,273,983. The fund equity balance included \$280,002,243 in cash held by the United States Treasury.

Fiduciary Fund Category

- ♦ **Private-Purpose Trust Fund** – to account for activity of any trust arrangement not properly reported in a pension fund or an investment trust fund where the principal and income benefit individuals, private organizations, or other governments. Department private purpose trust funds are the Workers' Compensation Plan I and Plan II Securities funds.
- ♦ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The department agency funds include the Wage Collection Fund.

2. General Fund Equity Balance

The department has authority to pay obligations from the statewide General Fund within its appropriation limits. The department's total assets placed in the fund exceed outstanding liabilities, resulting in a positive ending General Fund equity balance for the fiscal year ended June 30, 2014. This balance reflects the results of the activity of the department and not the fund equity balance of the Statewide General Fund.

The department has a negative ending General Fund equity balance for the fiscal year ended June 30, 2015. The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The department has authority to pay obligations from the statewide General fund within its appropriation limits. The department expends cash or other assets from the statewide fund when it pays General Fund obligations. The department's outstanding liabilities exceeded the assets it had placed in the fund, resulting in a negative ending General Fund equity balances for the fiscal year ended June 30, 2015.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds for both fiscal years include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

Direct entries to fund equity balances in the General, State Special Revenue, Federal Special Revenue, Enterprise and Internal Service funds for both fiscal years include correction of errors from a previous period that occurred at least two fiscal years prior and entries to record or adjust fund equity classifications.

Direct entries to fund equity in the State Special Revenue funds include an adjustment to decrease revenue and correspondingly decrease fund balance in the Uninsured Employers' Fund in 2014 in order to correct an error made in the previous fiscal year.

Direct entries to fund equity in the Internal Service and Enterprise funds also include a change in the application of an accounting principle related to GASB Statement 45 – Accounting and Financial Reporting by Employers for Postemployment Benefits other than Pensions and a change mandated by the GASB in conjunction with the implementation of Statement 68 – Accounting and Financial Reporting for Pensions. The restatement for the change in application related to GASB 45 results in an increase to fund equity of \$391,850; the change in accounting principle for GASB 68 results in a net decrease to fund equity in the amount of \$5,163,292.

4. Unemployment Insurance

Benefit Payments

Unemployment Insurance Benefits and Claims payments reached peak levels in fiscal year 2010, due to the recession. As the economy has improved, and people are returning to work, benefits continue to decrease. Benefits and Claims payments totaled \$134,227,178 for the fiscal year ending June 30, 2014, to \$111,137,505 for the fiscal year ending June 30, 2015.

Allowance for Doubtful Accounts

In FY 2014, the Department did not classify the long-term portion of the allowance for uncollectible accounts. We incorrectly recorded the entry to account 1212 (Allowance for Uncollectible Accounts) instead of recording a portion to account 1217 (Long-term Allowance for Uncollectible Accounts). \$9,365,529.69 should have been recorded in account 1217.

5. Uninsured Employers' Fund

Accounts Receivable

Throughout 2014 and 2015, the Uninsured Employers' Fund (UEF) has continued their internal review of outstanding accounts receivable. As a result of this review, \$6,534,398 in customer accounts were written off in 2014 and \$11,632,609 in customer accounts were written off in 2015. The result is a significant decrease in the Accounts Receivable balance from previous years.

Revenue Accounts

An error was made in completing these write-off adjustments, in that, in certain cases, revenue was decreased instead of the Allowance for Doubtful Accounts. The result was an ending debit balance in a revenue account. A correcting entry was completed in FY 2016. The volume of write-offs in this fund was unusual. We don't anticipate the same level of write-offs in the future.

6. Technology Services Division Reorganization

In FY 2014, the Department made the decision to reorganize our information technology function, creating a centralized IT division for the agency, known as the Technical Services Division. In spring of SFY 2014, a number of large entries were done to move information technology expenditures from each of the divisions to the newly created Technology Services Division.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Tori Hunthausen, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Angus Maciver

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Department of Labor and Industry for each of the fiscal years ended June 30, 2015, and 2014, and the related notes to the financial schedules, and have issued our report thereon dated November 25, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Department of Labor and Industry's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the department's internal control. Accordingly, we do not express an opinion on the effectiveness of the department's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purposes described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material

weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the department's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination on financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the department's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the department's internal control or compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

November 25, 2015

DEPARTMENT OF LABOR
AND INDUSTRY

DEPARTMENT RESPONSE



Montana Department of LABOR & INDUSTRY

Steve Bullock, Governor
Pam Bucy, Commissioner

Commissioner's Office

January 4, 2016

Ms Tori Hunthausen
Legislative Auditor
Legislative Audit Division
PO Box 201705
Helena MT 59620-1705

RECEIVED
JAN 06 2016
LEGISLATIVE AUDIT DIV.

Subject: Financial Compliance Audit #15-15: Department of Labor and Industry

Dear Ms. Hunthausen:

The Department of Labor and Industry has reviewed the January 2016 Financial Compliance Audit for the two fiscal years ending June 30, 2015. The Department would like to thank your audit staff for their review. As a Department we are always looking for ways to improve and appreciate their efforts to help assure we are providing quality services with the best accountability possible. Our responses to the recommendations appear below:

Recommendation #1

We recommend the Department of Labor and Industry comply with state law by rounding the employer's average annual taxable payroll down to the next lower dollar when calculating employer experience rating.

Response:

Concur. The department concurs with this finding, and has already written a system change request in order to correct this for our next annual rating cycle. Of the approximately 37,000 accounts that are experience rated, only seven (or .02% accounts) were affected in 2015. The difference in the contribution rate is 0.2%, which amounts to a \$600 difference in contributions for those seven accounts. While we are always concerned with any instance of non-compliance with law, we are relieved that the impact of this instance of non-compliance was so small.

Recommendation #2

We recommend the Department of Labor and Industry validate the data necessary for the Unemployment Insurance quarterly report as required by federal regulations.

Response:

Concur. The department concurs with the recommendation and is in the process of working to conduct the necessary data validation efforts. DLI has been working to make modifications to

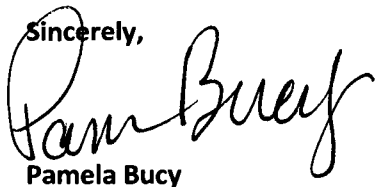
the ETA 227 Overpayments Report based on changes that were requested by the federal Department of Labor. With these changes Montana was required to not only make adjustments to the report itself, but to the Data Validation Extracts. The most recent changes came out in July of 2015 with the report changes due by September 30, 2015. Those report changes were completed on time. In order to ensure stabilization of the report the report should have one successful running of data for a quarters reporting time then the validation can be conducted. There are four Data Validation items that require modification, Population 12, 13, 14, and new Population 15. Population 15 has been built from scratch and is ready for validation efforts, which will occur January through March of 2016. The other three population still require modification and validation. Proposed timelines submitted to National Office in the states Quality Service Plan indicate that Population 12 has a completion date of 09/30/2016, Population 13 is targeted for completion 12/31/2016 and Population 14 is targeted for completion 03/31/2017.

Recommendation #3

We recommend the Department of Labor and Industry comply with the Treasury State Agreement and federal regulations by considering cash balances when drawing Unemployment Insurance funds and draw funds on an actual clearance pattern for payments made through the automated clearing house.

Response:

Concur. The department has already altered our procedures to include a consideration of cash balances when drawing Unemployment Insurance funds. We are currently in conversations with the Department of Administration, and plan to either alter our draw pattern to draw funds on an actual clearance pattern for payments made through the automated clearing house as is required by the current Treasury State Agreement or to request an amendment to our Treasury State Agreement that would allow us to continue to draw on the fixed weekly pattern.

Sincerely,

Pamela Bucy
Commissioner
Department of Labor and Industry

CC: Kim Moog, CSD Administrator